

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
FOUNDATION**

**FINANCIAL AUDIT
For the Year Ended June 30, 2006**

**Performed as Special Assistant Auditors
for the Auditor General, State of Illinois**

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION**

TABLE OF CONTENTS

	PAGE
AGENCY OFFICIALS	1
 FINANCIAL STATEMENT REPORT	
Summary	2
Independent Auditor's Report.....	3
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Net Assets.....	12
Statement of Cash Flows	13
Notes to Basic Financial Statements.....	15

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION**

AGENCY OFFICIALS

David A. Nelson	Chairman
Robert L. Bovinette	Vice Chairman
Rege S. Eisaman	Treasurer
Mallory M. Simpson	President and Secretary
Jean Jagodzinski, CPA	Controller

NIU Foundation Office is located at:

Altgeld Hall 135
DeKalb, Illinois 60115-2882

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the Northern Illinois University Foundation (Foundation) was performed by Clifton Gunderson LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's financial statements.

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northern Illinois University Foundation (Foundation), a component unit of Northern Illinois University and a component unit of the State of Illinois, as listed in the table of contents, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's June 30, 2005 financial statements and, in our report dated September 22, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University Foundation as of June 30, 2006, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, a report on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, upon issuance, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 to 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
September 21, 2006

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Northern Illinois University Foundation (the Foundation) for the year ended June 30, 2006. The financial statements are prepared in accordance with *Governmental Accounting Standards Board (GASB)* principles.

The Foundation is the official fundraising arm of Northern Illinois University (University) and was established in 1949 as an independent nonprofit corporation. The Foundation raises and receives private gifts, administers funds and manages assets on behalf of the University and its programs. The Foundation also evaluates, plans, and mounts long-term special fund drives or capital campaigns over and above the regular ongoing fundraising efforts.

Foundation support for development programs includes database and records management, electronic screening, information/data processing, communications, print, and telemarketing. Support also includes gift and estate planning, gift recording, receipting, and acknowledgement; gift administration; and investment, distribution, and stewardship of funds.

In addition, the Foundation provides support from private sources so the University may conduct donor cultivation and advancement functions that cannot be funded with tax dollars. The Foundation also assists the University by acquiring land for future use of the University under guidelines established by the Illinois Legislature.

Financial Highlights

The Foundation's financial position remains strong with net assets increasing \$2.8 million for the year from both new gifts and positive investment results. At June 30, 2006, total assets were \$63.1 million and total liabilities were \$8.0 million. The difference, net assets, was \$55.1 million.

The Foundation's investment policy is designed to maximize total return over the long term while maintaining an appropriate level of risk. In 2006, investment return for the endowment portfolio was 10.2% compared to 10.6% in 2005 and better than the market benchmark of 9.2%. The intermediate portfolio returned 4.3% in 2006 compared to 5.8% in 2005 and better than its market benchmark of 2.8%.

Total operating revenues decreased over \$2 million from 2005 to 2006, due to a \$1.5 million decrease in gifts.

Current assets increased nearly 140% primarily as a result of the dramatic increase in major gift pledges and resulting increased current pledge payments due and increases in cash and cash equivalents.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

The Foundation partnered again with the University to complete another building project, the Barsema Alumni & Visitors Center. Throughout this project, the Foundation has worked with donors to secure multi-year gift pledges, secure financing and to act as developer for the project. The fundraising goal was surpassed, pledge fulfillment is ahead of schedule, and construction of the project was successful with completion for the October 15, 2005 grand opening. In March 2006, the building was transferred to the University in an exchange that provided for a payment of \$2,545,000 and a gift from the Foundation to the University of \$5,549,024. The Foundation will continue to receive donor payments on pledges to the project and these funds will be used to retire the outstanding debt.

Another tremendous undertaking for the Foundation has been the fundraising and construction of an Academic and Athletic Performance Center, which will support all 486 student athletes competing in 17 sports. The Foundation again is serving as developer and has financed the project through tax-exempt bonds issued in August 2006. The initial fundraising goal of \$7 million was exceeded in November 2005. In light of fundraising momentum and the increased scope of the building project, the goal has been increased by \$1-1.5 million.

While total pledges receivable increased by more than \$392 thousand, payments due in more than one year decreased by \$687 thousand and account for one portion of the \$2.27 million decrease in noncurrent assets. Pledges are primarily restricted to the Barsema Alumni & Visitors Center (BAVC) project and the Academic and Athletic Performance Center (AAPC). (Note: GASB revenue recognition rules call for pledges to endowment to be recognized at the time payments are received.) During fiscal year 2006, the BAVC was completed and transferred to the University resulting in a \$4.2 million net decrease to the construction in progress account. Additions to the investment portfolios totaling \$2.6 million also impacted total noncurrent assets.

Through a services contract, the Foundation provides funds administration and investment services to the NIU Alumni Association to provide a efficient and effective means for these two organizations to work together. Assets of the Alumni Association are reflected in both assets and noncurrent liabilities of the Foundation.

Fiscal year 2006 was a very strong year for contributions, gifts and pledges, including permanent endowment additions. Total gifts and pledges were \$13.9 million in the year ended June 30, 2006.

Distributions to the benefit of the University increased over \$329 thousand after taking into account the \$879 thousand decrease in gifts in kind received and passed through to the University. These distributions consist of endowment income, expenses paid from expendable gift funds and gifts in kind passed through to the University.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. A summarized comparison follows:

Condensed Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 6,767,744	\$ 2,832,535
Other noncurrent assets	52,108,817	54,406,372
Capital assets	<u>4,259,237</u>	<u>4,232,273</u>
Total assets	<u>63,135,798</u>	<u>61,471,180</u>
Liabilities:		
Current liabilities	1,101,290	3,440,262
Noncurrent liabilities	<u>6,862,606</u>	<u>5,618,981</u>
Total liabilities	<u>7,963,896</u>	<u>9,059,243</u>
Total net assets	<u>\$ 55,171,902</u>	<u>\$ 52,411,937</u>

The above comparison indicates that the Foundation continues to build its financial strength. Current assets consist primarily of cash and equivalents and pledges receivable within one year. The major components among the noncurrent assets are endowment and intermediate term investments and construction in progress.

The Foundation's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are funds received from donors with the stipulation that the principal be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been designated by the Foundation Board of Directors or beneficiary units for long-term investment purposes. The majority of endowments are restricted for scholarships, professorships, research efforts, and other important programs and activities.

The Foundation uses its endowment to support excellence in University programs and scholarships in a way that balances its need to generate a predictable stream of annual support for current needs while preserving the purchasing power of the endowment funds for the future. In fiscal year 2006, the endowment spending-rate policy provided for a distribution of 4% of the three-year moving average of the endowment market value, to the extent that market value exceeded historic gift value.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

The goal of this averaging technique is to create a more predictable spending level from year to year for University departments and colleges. Additionally, it protects the long-term purchasing power of the endowment by keeping investment returns in excess of the spending rate within the portfolio. This policy is designed to offset losses from occasional market declines.

Current liabilities consist primarily of payments due on the construction project and trade accounts payable. The major components of noncurrent liabilities are accounts administered on behalf of the University and the Northern Illinois University Alumni Association.

Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. The Foundation's net assets at June 30, 2006 and 2005 are summarized as follows:

Summary of Net Assets

	<u>2006</u>	<u>2005</u>
Invested in capital assets	\$ 4,259,237	\$ 4,232,273
Restricted:		
Nonexpendable donor restricted	29,900,664	26,680,881
Expendable donor restricted	15,644,881	16,415,630
Unrestricted:		
Expendable	4,904,085	4,887,004
Expendable - reserved	<u>463,035</u>	<u>196,149</u>
Total net assets	<u>\$ 55,171,902</u>	<u>\$ 52,411,937</u>

Invested in capital assets is largely land held for use or potential future use by the University.

The Foundation's permanent endowment funds are restricted for nonexpendable endowment. Restricted expendable is subject to restrictions made by the donor directing their use. Unrestricted net assets are not subject to externally imposed stipulations and include funds that function as endowments.

Statements of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the Foundation, as well as nonoperating revenue and expenses. Fiscal year 2006 activity resulted in adding \$2.8 million to net assets.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

A summarized comparison of this statement follows:

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 16,933,197	\$ 18,957,578
Operating expenses	<u>15,642,959</u>	<u>10,737,319</u>
Operating income	1,290,238	8,220,259
Additions to permanent endowment	<u>1,469,727</u>	<u>1,694,193</u>
Increase in net assets	2,759,965	9,914,452
Net assets - beginning of year	<u>52,411,937</u>	<u>42,497,485</u>
Net assets - end of year	<u>\$ 55,171,902</u>	<u>\$ 52,411,937</u>

The major component of operating revenues is gifts and pledges that reflect the purpose of the Foundation, support for the University.

Gifts Summary

	<u>Total</u>	<u>Unrestricted</u>	<u>Barsema Alumni & Visitors Center</u>	<u>Academic & Athletic Performance Center</u>	<u>Other Restricted Expendable Purposes</u>	<u>Endowment</u>
Cash gifts received this year	\$ 9,543,294	\$ 247,290	\$ 918,288	\$ 2,442,902	\$ 4,465,087	\$ 1,469,727
Gifts in kind	3,983,678	5,638	-	-	3,978,040	-
New pledges signed	4,164,915	-	298,538	3,738,877	127,500	*-
Payments on pledges	<u>(3,772,649)</u>	<u>-</u>	<u>(768,642)</u>	<u>(2,828,342)</u>	<u>(175,665)</u>	<u>*-</u>
Total gifts reported	<u>\$ 13,919,238</u>	<u>\$ 252,928</u>	<u>\$ 448,184</u>	<u>\$ 3,353,437</u>	<u>\$ 8,394,962</u>	<u>\$ 1,469,727</u>

* Pledges to Endowment are not recognized under GASB standards until the gift is received.

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Expendable gifts	\$ 4,608,666	\$ 3,894,417	\$ 714,249
Gifts for capital projects	3,857,167	5,147,277	(1,290,110)
Gifts of property, equipment, goods, and services	3,983,678	4,862,527	(878,849)
Gifts to permanent endowments (nonoperating revenues)	<u>1,469,727</u>	<u>1,694,193</u>	<u>(224,466)</u>
Total gifts	<u>\$ 13,919,238</u>	<u>\$ 15,598,414</u>	<u>\$ (1,679,176)</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

The Foundation pays for its operations through a combination of investment income on expendable invested balances, an internal administrative fee of 1.5% of the endowment fund, a cost recovery fee on annual fund gifts raised, and service fee revenue from a contract with the University to provide fundraising services.

During the year ended June 30, 2006, the investment portfolio added a positive investment return providing \$3.6 million in investment income. Prudent investment policies, including a diversified portfolio that crosses several asset classes, resulted in actual performance better than the benchmarks against which the Foundation regularly evaluates its strategies and performance.

Total operating expenses increased \$4.9 million from 2005 to 2006, primarily due to the \$5.5 million gift portion of the Barsema Alumni & Visitors Center transferred to the University.

Summary of investment holdings as of June 30, 2006:

Endowment Fund:

35.0%	Large Cap US Equity
10.0	Small Cap US Equity
14.9	International Equity
2.8	Private Equity
21.7	Hedged Strategies
15.4	Fixed Income
<u>0.2</u>	Cash
<u>100.0%</u>	
10.2%	Total Return Net of Fees for year ended June 30, 2006
9.2%	Balanced Index

Intermediate Portfolio:

11.3%	Large Cap US Equity
2.7	Small Cap US Equity
5.9	International Equity
35.7	Hedged Strategies
44.1	Fixed Income
<u>0.3</u>	Cash
<u>100.0%</u>	
4.3%	Total Return Net of Fees for year ended June 30, 2006
2.8%	Balanced Index

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

Statement of Cash Flows

The Statement of Cash Flows provides information about the Foundation's sources and uses of cash.

Factors Affecting the Future

We believe the Foundation is well-positioned to continue its mission of supporting Northern Illinois University by building the financial resources to advance excellence and enhance the University's capacity to transform lives.

The Foundation has increased its operating budget to build the development programs in order to generate more private gift support for NIU. A final phase of NIU's ongoing campaign will be launched publicly in May 2007. The focus will be building the endowment to enhance academic quality.

Through our long-term investment strategy of maximizing total returns at an appropriate level of risk and managing the spending rate, endowment support policies are designed to help insulate endowed funds from market volatility. Having multiple revenue sources helps stabilize revenues to pay for operations of the Foundation's development activities. And finally, the Foundation has accumulated unrestricted net assets in order to have capacity to handle unexpected situations.

Increased emphasis has been placed on best practices in all areas of governance and operations. Preservation of trust among all of the Foundation's constituencies is of paramount importance. Within the past three and one half years, we have developed a comprehensive code of conduct, an audit committee, a board self-assessment program, and a leadership succession plan. We have also enhanced board recruiting procedures, our leadership succession planning, our methods of reporting to the board, and our ability to protect the privacy of donor records.

The Foundation remains committed to building gift support by continually investing in development programs and monitoring costs and effectiveness to help provide additional resources to further the University's tradition of excellence.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF NET ASSETS
June 30, 2006
With Comparative Totals for June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 4,727,117	\$ 1,889,047
Receivables:		
Pledges receivable (Note 1)	2,023,237	942,988
Accounts receivable	2,390	500
Prepaid expenses	15,000	-
Total current assets	6,767,744	2,832,535
NONCURRENT ASSETS		
Pledges receivable (Note 1)	2,118,143	2,806,126
Investments (Note 2)	49,158,409	46,584,909
Building construction in progress (Note 5)	832,265	5,015,337
Capital assets (Note 3)	4,259,237	4,232,273
Total noncurrent assets	56,368,054	58,638,645
TOTAL ASSETS	<u>63,135,798</u>	<u>61,471,180</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,063,558	2,357,029
Accounts payable due to Northern Illinois University	37,732	310,539
Notes payable (Note 4)	-	772,694
Total current liabilities	1,101,290	3,440,262
NONCURRENT LIABILITIES		
Notes payable (Note 4)	1,410,319	-
Contractual payments to income beneficiaries - trusts and annuities	206,025	215,627
Endowment and gift accounts administered for NIU	2,913,882	2,962,084
Deposits held for NIU Alumni Association	2,332,380	2,441,270
Total noncurrent liabilities	6,862,606	5,618,981
TOTAL LIABILITIES	<u>7,963,896</u>	<u>9,059,243</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets	4,259,237	4,232,273
Restricted:		
Nonexpendable donor restricted	29,900,664	26,680,881
Expendable donor restricted	15,644,881	16,415,630
Unrestricted:		
Expendable	4,904,085	4,887,004
Expendable - reserved	463,035	196,149
TOTAL NET ASSETS	<u>\$ 55,171,902</u>	<u>\$ 52,411,937</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005**

	<u>2006</u>	<u>2005</u>
REVENUES		
Operating revenues:		
Expendable gifts, for all purposes other than capital assets	\$ 4,608,666	\$ 3,894,417
Gifts for capital projects	3,857,167	5,147,277
Gifts of property and equipment, goods, and services	3,983,678	4,862,527
Support from NIU Alumni Association for Barsema Alumni & Visitors Center building	-	400,000
Investment income	3,565,157	3,324,967
Services contract revenue from NIU	523,074	531,719
Special events, merchandise sales, and miscellaneous income	395,455	796,671
	<u>16,933,197</u>	<u>18,957,578</u>
Total operating revenues		
EXPENSES		
Operating expenses:		
Expenses on behalf of NIU:		
Scholarships and fellowships	736,494	731,883
Instruction	5,152,881	4,583,495
Research	40,862	67,356
Public service	582,663	608,071
Academic support	42,343	1,624,166
Student services	893,572	564,715
Operations and maintenance of plant	131,799	6,598
Institutional support	329,735	273,267
	<u>7,910,349</u>	<u>8,459,551</u>
Building and land transferred to University	5,549,024	350,000
NIU Foundation fundraising	1,056,756	1,058,418
NIU Foundation operations and administration	1,126,830	869,350
	<u>15,642,959</u>	<u>10,737,319</u>
Total operating expenses		
Operating income	1,290,238	8,220,259
NONOPERATING REVENUES		
Gifts to permanent endowments	<u>1,469,727</u>	<u>1,694,193</u>
INCREASE IN NET ASSETS	2,759,965	9,914,452
NET ASSETS, BEGINNING OF YEAR	<u>52,411,937</u>	<u>42,497,485</u>
NET ASSETS, END OF YEAR	<u>\$ 55,171,902</u>	<u>\$ 52,411,937</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts received for operating purposes	\$ 4,662,934	\$ 3,855,324
Gifts received for capital projects	3,410,633	2,997,103
Support from NIU Alumni Association for Barsema Alumni & Visitors Center	-	400,000
Payments from services contract with NIU	296,574	270,635
Foundation operations and fundraising expenses	(2,012,679)	(1,919,095)
Scholarships and other expenses on behalf of NIU	(3,800,518)	(2,867,430)
Other operating revenues	<u>395,455</u>	<u>496,671</u>
Net cash provided by operating activities	<u>2,952,399</u>	<u>3,233,208</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for construction of building for NIU	(5,393,773)	(2,406,959)
Proceeds received for building transferred to NIU	2,545,000	-
Proceeds from note payable	5,326,315	772,694
Principal paid on note payable	(4,848,176)	-
Gifts received for endowment purposes	1,469,727	1,694,193
Payments to annuitants	<u>(9,602)</u>	<u>(21,117)</u>
Net cash provided by (used in) noncapital financing activities	<u>(910,509)</u>	<u>38,811</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(38,385)</u>	<u>(63,126)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	8,995,416	5,568,717
Payment of investment fees	(93,479)	(95,526)
Purchase of investments	(7,868,209)	(9,331,990)
Interest and dividend income	<u>(199,163)</u>	<u>1,303,319</u>
Net cash provided by (used in) investing activities	<u>834,565</u>	<u>(2,555,480)</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005**

	<u>2006</u>	<u>2005</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 2,838,070	\$ 653,413
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,889,047</u>	<u>1,235,634</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,727,117</u>	<u>\$ 1,889,047</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,290,238	\$ 8,220,259
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Depreciation	11,421	8,673
Gain on disposal of capital asset	-	(300,000)
Interest expense added to note principal	159,486	-
Building and land transferred to University	5,549,024	350,000
Investment income	(3,565,157)	(3,324,967)
Receivables	(394,156)	(2,087,398)
Prepaid expenses	(15,000)	-
Accounts payable and accrued liabilities	<u>(83,457)</u>	<u>367,041</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,952,399</u>	<u>\$ 3,233,608</u>
SIGNIFICANT NONCASH TRANSACTIONS		
Transfer of gifts of equipment and software goods and services to NIU	<u>\$ 3,983,678</u>	<u>\$ 4,862,527</u>
Transfer of building and land to NIU	<u>\$ 5,549,024</u>	<u>\$ 350,000</u>
Building construction in accounts payable	<u>\$ 651,319</u>	<u>\$ 2,134,140</u>

See accompanying notes to basic financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Northern Illinois University Foundation (the "Foundation") is an Illinois nonprofit corporation established to secure and manage private support to benefit Northern Illinois University ("University").

The Foundation is a "University Related Organization", as defined under the University Guidelines adopted by the Legislative Audit Commission in 1982, as amended in 1997, and a component unit of the State of Illinois for financial reporting purposes. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, the Foundation is included as a component unit of the University for financial reporting purposes. The financial balances and activities included in these financial statements are therefore also included in the University's comprehensive annual financial report. All funds of the Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury and are not owned by the state.

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

These financial statements include all financial activities over which the Foundation exercises direct responsibility.

While the NIU Foundation is a nonprofit corporation, the State of Illinois requires reporting under the Governmental Accounting Standards Board (GASB) model for university related organizations. Under GASB, the Foundation is considered a special-purpose government engaged only in business-type activities. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation has elected not to apply FASB pronouncements issued after November 30, 1989. Accordingly, the accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- A. Gifts of securities are recorded at fair value on the date of the gift. In accordance with the requirements of Governmental Accounting Standards Board (“GASB”) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments, except limited partnerships, are reported at fair value. Changes in unrealized gain (loss) are reported as a component of investment income in the statement of revenues, expenses and changes in net assets. Investments in limited partnerships are reported at net asset value.
- B. Gifts of land, property and equipment, and software are stated at market values as of date of the gift. Gifts of service are recorded as both revenue and expenses based on estimates of the fair market value of services received.

Land, property and equipment, and software are stated at cost for purchased items.

Gift pledges are recorded in accordance with GASB Statement No. 33, *Nonexchange Transactions*. Gift income and pledges receivable are recognized when a pledge representing an unconditional promise to pay is received and all applicable eligibility requirements, including time requirements, have been met. Current pledges are reported as those receivable within one year. Noncurrent pledges are those balances due beyond one year. Pledges for general operations or typically, capital purposes, are recognized when pledged and all conditions have been met. Unlike pledges for operations or capital purposes, endowment pledges are recognized when the gift is received and the endowment is established. Pledges are recorded net of a reserve for potentially uncollectible amounts of \$333,538.

Revenues are classified as operating revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, nonoperating revenues include revenues that have the characteristics of nonexchange transactions as defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and by GASB Statement No. 34 which would include gifts and investment income. Because securing gifts and investing funds constitute the Foundation’s primary operations, gift revenues, other than to endowments, and investment income have been classified as operating revenues.

- C. Net assets of the Foundation are classified as follows:

Invested in capital assets - represents the Foundation total investment in capital assets. There is no outstanding debt related to these assets at this time.

Restricted net assets - expendable - represents the resources for which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. This includes funds that are restricted as to use, that are being treated as endowment, but that do not have an external requirement to be held as nonexpendable. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted net assets - nonexpendable - represents endowment funds, where the donor has provided a gift for which the principal must remain invested in perpetuity and only the income may be utilized to support the restricted purpose the donor has indicated.

As beneficiary of a charitable remainder trust fund, the Foundation reports the assets within the investments as *restricted net assets - nonexpendable*. The investment is measured at fair value of \$114,293 as of June 30, 2006, less an actuarial liability due to the life income beneficiaries of the trust amounting to \$21,524. The net amount represents the present value of the ultimate remainder interest that will eventually fund an endowed scholarship fund.

In December 1999, the Foundation established a charitable gift annuity program. Under the terms of an annuity agreement, a donor transfers ownership of assets to the Foundation in exchange for a contractual periodic income payment that continues for the lifetime of the designated income recipient or recipients. At the death of the income recipients, the remaining assets are used for the charitable purpose indicated by the donor. The actuarial present value of payments required by these contracts was \$184,501 at June 30, 2006.

Unrestricted net assets - represent resources used for transactions relating to the general operations of the Foundation and may be used at the discretion of the board to meet expenses for any purpose.

- D. The Foundation administers certain gifts and bequests for which the legal gifting document named the University directly. The Foundation administers the original amount of the gifts and bequests, and related net income amounted to \$2,913,882. This amount is shown as a liability to the University at June 30, 2006.
- E. The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.
- F. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006, cash and cash equivalents consisted primarily of demand deposit bank accounts and money market and similar funds.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board has approved authority to the Finance Committee to formulate an investment policy for funds and assets of the Foundation. The Finance Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret the policy to the Foundation's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly by the Finance Committee and reported to the Board of Directors.

The policy indicates the intended use for funds shall determine how they will be invested. There are two primary investment strategies executed in different investment pools. Endowed funds and funds initially received as expendable but acting as endowment are invested with a long-term horizon. Based upon historical patterns of usage, expendable gift funds are invested with an intermediate strategy.

If a donor has not provided specific instructions, state law directs the Board of Directors to authorize for expense the net appreciation, both realized and unrealized, of the investments of endowment funds.

The Finance Committee adopted a spending policy for fiscal year 2006 of 4 percent of the three year moving average of the funds' market value of the endowment investments of the three preceding years to be expendable.

The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$9,000,231 at June 30, 2006. At June 30, 2006, the fair value of the assets of certain donor-restricted endowment funds was approximately \$5,923 less than the original principal amount of those funds. These amounts are included in the net assets section of the Statement of Net Assets as restricted for nonexpendable purposes.

The Foundation's permissible investment categories include:

1. Equities;
2. Fixed income securities;
3. Cash equivalents;
4. Venture capital/private equity;
5. Equity real estate;
6. Hedge funds.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Details of investment balances at June 30, 2006 are as follows:

	<u>Cost</u>	<u>Market</u>
Mutual funds	\$ 36,468,226	\$ 42,405,306
Stock	1,761,715	2,341,815
Limited partnerships	3,793,173	4,191,105
Charitable remainder trusts	<u>106,472</u>	<u>114,293</u>
	<u>\$ 42,129,586</u>	49,052,519
Cash surrender value of life insurance		<u>105,890</u>
		<u>\$ 49,158,409</u>

In fulfilling its responsibilities, the Board has contracted with 23 investment management firms to execute the strategy it has established.

Custodial Credit Risk

Custodial credit risk is the potential for a financial institution or counterparty to fail such that the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk. All of the Foundation's deposits and investments are insured or collateralized with securities held in the Foundation's name.

Concentration Risk

The Foundation's policy calls for no investment purchases that would cause a position in the portfolio to exceed 5 percent of the outstanding voting shares of the company or invest with the intent of controlling management. The Foundation does not have any investments representing five percent or more of the Foundation's assets in any single issuer.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's investment policy calls for individual international managers to maintain an appropriate diversification with respect to currency and country. The Foundation's investments at June 30, 2006 were distributed among the following currencies:

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Currency Risk (Continued)

<u>USD Equivalent</u>		<u>Currency</u>
\$ 46,808,259	87.0%	United States Dollar
1,927,456	3.6	Euro Current Unit
1,365,975	2.6	Japanese Yen
1,153,150	2.1	British Pound
332,750	.6	Canadian Dollar
326,817	.6	Swiss Franc
<u>1,865,229</u>	<u>3.5</u>	Other currencies, individually less than 0.5% of deposits and investments
<u>\$ 53,779,636</u>	<u>100.0%</u>	Total currencies

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation's policy calls for managers to maintain an overall credit rating of Aa or better by Moody's or AA or better by Standard & Poor's and to hold no more than 15 percent of the portfolio in below investment grade issues (below Baa/BBB).

Fixed income securities are held through mutual funds. Foundation assets subject to credit risk are shown with a current credit rating below:

<u>Credit Risk Quality Rating</u>	<u>Fixed Income Mutual Fund Balance</u>
AAA	\$ 6,231,968
AA	4,620,880
AA+	858,969

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy statement indicates that each manager shall maintain a duration +/- 20 percent of the effective duration of its benchmark index. The same assets as detailed with respect to credit risk above are subject to interest rate risk as detailed below:

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (Continued)

<u>Weighted Average Duration (Years)</u>	<u>Fixed Income Mutual Fund Balance</u>	
2.7	\$ 4,523,511	
3.9	4,620,880	
4.8	1,708,457	
7.2	<u>858,969</u>	
4.7	<u>\$ 11,711,817</u>	Total

Commitments

Under one of the limited partnership agreements, the Foundation has a capital commitment of \$2,000,000, of which \$1,600,000 was not funded at June 30, 2006. Two other investments also have capital commitments totaling \$1,497,874, of which \$782,916 was not funded at June 30, 2006.

NOTE 3 - CAPITAL ASSETS

The Foundation's capital assets are as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
Land	\$ 3,829,350	\$ -	\$ -	\$ 3,829,350
Building	146,802	-	-	146,802
Furniture and equipment	74,367	34,385	-	108,752
Collections	<u>190,427</u>	<u>4,000</u>	<u>-</u>	<u>194,427</u>
	4,240,946	38,385	-	4,279,331
Less accumulated depreciation for furniture and equipment	<u>(8,673)</u>	<u>(11,421)</u>	<u>-</u>	<u>(20,094)</u>
Capital assets, net	<u>\$ 4,232,273</u>	<u>\$ 26,964</u>	<u>\$ -</u>	<u>\$ 4,259,237</u>

At June 30, 2006, furniture and equipment is depreciated on the straight-line basis and depreciation expense amounted to \$11,421. The estimated useful lives range from 5 to 10 years. The building and collections are held by the Foundation for public exhibition, education or research rather than financial gain. Collections include musical instruments and works of art. In accordance with GASB Statement No. 34, depreciation for capitalized works of arts, historical treasures and similar items is not required.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 4 - BARSEMA ALUMNI & VISITORS CENTER

Working closely with the University, the Foundation has successfully raised funds and constructed the approximately 37,000 square foot Barsema Alumni & Visitors Center. The building opened for use in October 2005.

In March 2006, the Foundation transferred the building costing \$8,094,024 to the University under the terms of an agreement calling for a payment from the University of \$2,545,000, resulting in recognizing a gift to the University of \$5,549,024. The transfer amount was established through an agreement with the University with the stated intention of providing no profit to the Foundation above the amount of donor gifts to the project less actual costs incurred. The agreement includes a provision for adjustment to actual costs, when known, including cost of financing not determinable at the time of the transfer.

In addition to the building, during the year ended June 30, 2005, the Foundation gifted a parcel valued at \$350,000 to the University to complete the land needed for the construction site for the facility.

Financing allowed the building to be built while donors are fulfilling their gift pledges. At June 30, 2006, the note payable outstanding amounted to \$1,410,319. The note calls for interest at prime rate less 0.75 percent (7.5 percent at June 30, 2006) and is due January 2012. Payments on donor pledges will be used to retire the debt and are pledged to the bank as security for the note. Total interest incurred was \$174,523, of which \$24,855 was capitalized.

Following are the changes in the note payable balance for the year ended June 30, 2006:

Balance at July 1, 2005	\$ 772,694
Proceeds	5,485,801
Payments	<u>(4,848,176)</u>
Balance at June 30, 2006	<u>\$ 1,410,319</u>

Total minimum cumulative payment schedule using the interest rate at June 30, 2006 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 385,852	\$ 170,413	\$ 556,265
2009	714,180	78,116	792,296
2010	110,479	23,595	134,074
2011	61,596	15,194	76,790
2012	<u>138,212</u>	<u>10,509</u>	<u>148,721</u>
	<u>\$ 1,410,319</u>	<u>\$ 297,827</u>	<u>\$ 1,708,146</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

NOTE 4 - BARSEMA ALUMNI & VISITORS CENTER (CONTINUED)

Following is a summary of the results of the campaign for the Barsema Alumni & Visitors Center:

Pledges outstanding June 30, 2006:	
Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule	\$ 1,371,773
Not recognized for financial reporting purposes:	
Signed bequest	500,000
Verbal commitments, the majority of which have payments or other indications of donor intention	<u>201,942</u>
Total pledges outstanding at June 30, 2006	2,073,715
Northern Illinois University Alumni Association	500,000
Cash gifts and pledge payments received to date	<u>4,169,153</u>
Total raised	<u>\$ 6,742,868</u>

**NOTE 5 - ACADEMIC AND ATHLETIC PERFORMANCE CENTER
(Commitments and Subsequent Events)**

Working closely with the University, the Foundation has raised funds and is building the Academic and Athletic Performance Center. The Foundation has entered into contracts for construction and architectural services. Total estimated costs under these contracts are \$11,223,404. As of June 30, 2006, approximately 7 percent (\$832,265) of the work had been completed. The Foundation is obligated to pay the remainder of the costs under the contracts as the work is completed. Construction of the approximately 60,000 square foot Academic and Athletic Performance Center began in July 2006.

The building will house state of the art strength and conditioning facilities, academic and tutoring support, coaches' offices, and locker rooms and is located in the north end zone of the football stadium.

Financing will allow the building to be built while donors are fulfilling their gift pledges. In August 2006 tax-exempt bonds with a par of \$9,206,100 were issued at 4.66 percent for ten years. Bonds are secured by an assignment of a lease for the facility and general obligation of the Foundation. Covenants require a minimum of \$3,000,000 of unrestricted net assets. The University has provided a letter of intent to enter into the lease providing for 19 semi-annual lease payments of \$384,736 commencing August 2007.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

**NOTE 5 - ACADEMIC AND ATHLETIC PERFORMANCE CENTER (CONTINUED)
(Commitments and Subsequent Events)**

Following is a summary of the results of the campaign for the Academic and Athletic Performance Center through June 30, 2006:

Pledges outstanding June 30, 2006:	
Recognized for financial reporting purposes:	
Signed pledge agreements with pledge payment schedule	\$ 2,798,020
Not recognized for financial reporting purposes:	
Verbal commitments, the majority of which have payments or other indications of donor intention	<u>1,265,195</u>
Total pledges outstanding at June 30, 2006	4,063,215
Cash gifts and pledge payments received to date	<u>3,256,782</u>
Total raised	<u>\$ 7,319,997</u>

NOTE 6 - RENTAL INCOME

The Foundation leases three properties to the University. Annual rentals are \$5,660 with the University being responsible for all operating expenses and maintenance. The leases were renewed through June 30, 2006. Rental income is included in the miscellaneous income in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 7 - NORTHERN ILLINOIS UNIVERSITY AGREEMENT

Under the terms of the contract, the Foundation aids and assists the University in achieving its educational, research and service goals by securing and administering gifts made to the University for scholarships, loans, grants, and other supporting programs. In turn, the University will furnish certain services necessary to the operation of the Foundation.

The cost to the Foundation for direct salary support provided by Northern Illinois University was \$371,411 for the year ended June 30, 2006. In addition to salaries, the Foundation conducts development programs and activities. Income for services rendered to the University was \$523,074 for the year ended June 30, 2006. The contract may be canceled upon ninety days written notice by either party.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006**

**NOTE 8 - NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION
(ASSOCIATION) AGREEMENT**

February 2004, the Foundation entered into an agreement with the NIU Alumni Association calling for the Foundation to provide investment and funds administration services for the NIU Alumni Association. Funds of the Alumni Association are disclosed as the deposits held for the Northern Illinois University Alumni Association on the face of the financial statements. A fee of \$55,000 was paid to the Foundation and is included in miscellaneous income in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 9 - RELATED PARTY TRANSACTIONS

Members of the Board of Directors of the Foundation and Board of Trustees of the University enthusiastically support the Foundation's efforts through their valuable service, generous gift support, and other means. Board members provided a total of \$2,169,484 of gift support for the year ended June 30, 2006 and are responsible for \$1,240,819 of the outstanding pledge balance.

In addition to direct support, Board members have provided other valuable services and support to the Foundation. Based upon a blind competitive process, it became evident that Board members' organizations, working together, provided the most attractive financing package for the Barsema Alumni & Visitors Center of a broad group of alternatives evaluated. Additionally, routine banking services are provided by one of these banks and the cost has been compared favorably to market rates.

NOTE 10 - RETIREMENT PLAN

Through the contract with the University, the Foundation employees are participants in the State Universities Retirement System of Illinois (SURS), a cost sharing multiple employer public employee retirement system.

Payments are included in the amount shown as operations and administration expenses in the Statement of Revenues, Expenses, and Changes in Net Assets. The payment amounted to \$31,181 for the year ended June 30, 2006.

This information is an integral part of the accompanying financial statements.